

canberra times: q&a

Q 1: I am 62 years of age, retired and living off my CSS indexed pension of \$40,000 and \$175,000 in superannuation. My wife is 60 years of age with \$120,000 in superannuation and will retire next year. We are about to receive a \$100,000 inheritance. Should we put this money into superannuation or not?

Withheld, CANBERRA

A 1: These kinds of questions present an opportunity to show just how useful a financial plan can be for making the best financial decisions in your specific situation. In many situations there are relationships between your specific financial components that can work better one way over another, particularly when it comes to understanding any aged pension entitlements.

On the surface it may appear simple to keep the inheritance in a fund outside super in your wife's name, where she would be expected to pay no tax on earnings during retirement. However, due to you falling under the income test for aged pension calculation purposes in your situation, there can be an improved outcome should you hold assets in the account based pension environment due to some income from assets effectively being shielded from assessment.

In simple terms financial assets held outside superannuation are 'deemed' to earn an income for aged pension calculation purposes. Assets however held in an account based pension are not deemed for income, rather they are assessed for the income drawn, less an assessment free amount based on your age when the pension was commenced.

For example, if you were to simply keep the \$100,000 inheritance invested in a 'balanced' investment fund in your wife's name outside of superannuation, and you each drew an account based pension from your superannuation funds during retirement with funds invested to target a 'balanced' long term return, then you would be expected to be able to spend around \$67,500 pa (in today's dollars) for 25 years during retirement. This would include you each being entitled to a part aged pension from age 65 of some \$1,788 and \$2,814 respectively in the first full year of claim.

If instead, the \$100,000 inheritance was contributed to superannuation targeting a 'balanced' long term return, then you would be expected to be able to spend a higher \$68,500 pa for 25 years during retirement, with the aged pension in the first full year of claim increasing to \$4,410 and \$6,613.

In your particular situation the aged pension entitlement is considerably higher in the earlier years while decreasing later on in retirement. The overall result is you being around \$1,000 pa better off during retirement. If the overall long term result is better, then it may be worthwhile capturing the larger aged pension entitlement in the earlier years.

There are many components of your financial situation to consider so it is a good idea to see a Certified Financial Planner for some advice and to prepare a Financial Plan, to make sure you are arranging your financial situation in the most beneficial way possible.

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